

**Guidance on Complying with *Government Auditing Standards*
Reporting Requirements for the Report on Internal Control for
Audits of Certain Entities Subject to the Requirements of the
Sarbanes-Oxley Act of 2002 and *Government Auditing Standards***

Certain companies subject to the Securities Exchange Act of 1934 (“issuers”) may be required to have an audit conducted in accordance with standards issued by both the Public Company Accounting Oversight Board (PCAOB), as required by the Sarbanes-Oxley Act of 2002, and the Comptroller General, as contained in *Government Auditing Standards* (GAGAS). Some examples include lending institutions that participate in federally-sponsored loan programs such as housing and education. For such entities, auditors must meet the requirements of both sets of standards in conducting their work.

Government Auditing Standards may be used in conjunction with professional standards issued by other authoritative bodies, such as PCAOB, even though these standards are not incorporated into GAGAS. GAO recognizes that the use of different standard setters’ frameworks for assessing control deficiencies could result in inconsistencies in reporting on internal control under GAGAS. In order to facilitate reporting of internal control deficiencies identified during audits conducted under both PCAOB and GAGAS standards, to ensure the consistency of information included in the GAGAS report on internal control, and to assist auditors in complying with GAGAS, GAO is providing the following guidance:

- Auditors may prepare the GAGAS report on internal control (see paragraphs 5.12 through 5.16) based on the definition of “material weakness” contained in PCAOB’s *Auditing Standard No. 2—An Audit of Internal Control Over Financial Reporting Financial Reporting Performed in Conjunction with An Audit of Financial Statements* rather than on the terms “reportable condition” and “material weakness” contained in the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards. This will provide a consistent basis of reporting material weaknesses between the GAGAS report on internal control and the auditor’s opinion on management’s assessment of the effectiveness of the company’s internal control over financial reporting, commonly referred to as the Section 404 report, as required by the Sarbanes-Oxley Act and PCAOB standards.
- To ensure consistency in the type of information that is included in GAGAS reports on internal control, auditors who prepare the GAGAS report on internal control using the PCAOB’s definition of “material weakness” should also include in their report any other “significant deficiencies,” as defined in PCAOB Auditing Standards No. 2, that would have otherwise been considered to be a “reportable condition” if the definitions in AICPA standards had been used. Such reporting will satisfy the requirements of paragraph 5.13 of GAGAS.

- Control deficiencies that meet the definition of “significant deficiencies” as defined in PCAOB’s Auditing Standard No. 2 but not reported in the GAGAS report on internal control should be included in the management letter required by paragraph 5.16 of GAGAS, along with any other control deficiencies noted unless clearly inconsequential.
- If auditors elect to prepare the GAGAS report on internal control on the basis of the definition of “material weakness” contained in PCAOB’s Auditing Standard No. 2 rather than the AICPA’s definitions of “material weakness” and “reportable condition,” the GAGAS report on internal control should clearly state that the PCAOB standards and definitions were used, describe the scope of work performed, and provide appropriate definitions of PCAOB terminology.
- Auditors are reminded that they are required to comply with all other relevant GAGAS requirements related to reporting deficiencies in internal control, including developing findings to the extent possible (see paragraph 5.15), providing recommendations for corrective action if findings are sufficiently developed (see paragraph 5.15), preparing a management letter addressing all other control deficiencies not included in the report on internal control unless clearly inconsequential (see paragraph 5.16), obtaining views of responsible officials (see paragraphs 5.25 through 5.30), ensuring appropriate report distribution (see paragraphs 5.34 through 5.38), etc.

The AICPA’s Auditing Standards Board is currently conducting a project to reexamine its framework for assessing control deficiencies and draft changes to the related standards. GAO will evaluate the impact of the resulting changes on GAGAS and issue additional guidance, if necessary, at a later date.

For additional information or for questions related to this guidance, please contact

- Michael C. Hrapsky at (202) 512-9535
- Marcia B. Buchanan at (202) 512-9321
- Jeanette M. Franzel at (202) 512-9406